Managing Ethics and Compliance Risk: Effective Auditing & Monitoring In Practice

In this workshop, we will explore:

- Why effective auditing and monitoring is a critical component of a successful ethics and compliance program;

- Various auditing and monitoring tools and techniques that support the effective management of ethics and compliance risk in the organization and help to identify and target “hot spots” for further review and remediation;
Effective Auditing & Monitoring in Practice

In this workshop, we will explore:

- How to create strategic and targeted action plans for the effective implementation and management of your auditing and monitoring program and practices; and,

- The value of leveraging strategic partnerships in the organization such as Internal Audit to improve the auditing and monitoring components of your program and to accomplish more with limited resources.

Who we are:

Amii Barnard-Bahn
- McKesson U.S. Pharmaceutical Healthcare company
- Distributes 1/3 medicines used every day
- 6,500 employees
- Approx. $90 billion in revenues

Caroline McMichen, CECO
- Molson Coors Brewing Company
- Global brewer with breweries in 14 countries
- 100 brands sold in 50 countries
- 19,000 people
- Approx. $1 billion in sales
## Today’s Agenda

<table>
<thead>
<tr>
<th>Time</th>
<th>Session</th>
</tr>
</thead>
<tbody>
<tr>
<td>1:30 – 2:30 p.m.</td>
<td>• The Business Case: Why Audit &amp; Monitor?</td>
</tr>
<tr>
<td></td>
<td>• Practices, tools and techniques</td>
</tr>
<tr>
<td></td>
<td>• Challenges and Strategies</td>
</tr>
<tr>
<td>2:30 – 2:45 p.m.</td>
<td>Break</td>
</tr>
<tr>
<td>2:45 – 3:15 p.m.</td>
<td>Getting Started on Your Plan</td>
</tr>
<tr>
<td>3:15 – 4:15 p.m.</td>
<td>Anti-Corruption Case Study:</td>
</tr>
<tr>
<td></td>
<td>• Develop a plan: Steps 1 &amp; 2</td>
</tr>
<tr>
<td></td>
<td>• Develop a plan: Steps 3 &amp; 4</td>
</tr>
<tr>
<td></td>
<td>• Report Out</td>
</tr>
<tr>
<td>4:15 – 4:30 p.m.</td>
<td>Questions</td>
</tr>
</tbody>
</table>

## Effective Auditing & Monitoring in Practice: A critical program component

**U.S. Federal Sentencing Guidelines require an organization to:**

- Establish standards and procedures to *prevent and detect criminal conduct*
- Establish managerial responsibility and Board oversight
- Do not delegate authority to people with a history of compliance (or ethics) problems
- Provide tailored programs and other communications at all levels
- **Monitor and audit program effectiveness**
- Provide incentives and impose discipline
- Respond appropriately to violations
- **Periodically assess risk and modify accordingly**
Effective Auditing & Monitoring in Practice: A critical program component

Regulations such as the FCPA and U.K. Bribery Act have specific requirements for companies to show adequate procedures for:

- Identifying risk of non-compliance
- Monitoring and auditing for violations
- Taking appropriate actions to mitigate risks

The 2012 E&Y Global Fraud Survey tells us:

- Despite regulatory efforts in most countries, bribery and corruption is still widespread. 39% of respondents report that bribery and corrupt practices occur frequently in their countries. Rapid growth markets pose even higher risk.

- There is an increasing acceptance of unethical behavior in the current economic environment. 15% of CFO respondents (9% in last survey) said they were prepared to make cash payments to win or retain business and 5% (3% last survey) said they would consider misstating financial performance due to increased pressure.
Effective Auditing & Monitoring in Practice: A critical program component

The 2012 E&Y Global Fraud Survey tells us:

- Control environments are not strong enough as management is more reluctant to penalize high performers for misconduct in this environment
- Ethics and Compliance due diligence on third parties and deal targets is expected by regulators but 44% reported not doing so. “The management of third parties is the biggest blind spot for companies today.”
- Boards hold ultimate responsibility, but 52% of c-suite respondents think the board doesn’t understand the business / risk well enough to provide effective oversight in this area
- Dodd-Frank has increased the risk associated with whistleblowers

Primary objectives of Auditing & Monitoring are to:

- Determine the effectiveness of other program elements such as training and communication; and to
- Identify potential incidents of non-compliance.
Effective Auditing & Monitoring in Practice: Tools and techniques

What's the difference between auditing and monitoring?

Ongoing monitoring usually consists of established or regularly scheduled processes or activities generally used to identify "red flags" or “hot spots” that may require more detailed evaluation or auditing.

Auditing tools and techniques are typically more targeted in nature and often used for areas identified as higher risk through your risk assessment or monitoring activities.

Some common tools and techniques for ongoing monitoring are:

- Code of Conduct or policy affirmation and disclosures
- Monitor % affirmed and follow up on exceptions, look for trends
- Training completion data
- Monitor completion rates and identify negative trends
- Surveys and questionnaires
- Measure knowledge levels, cultural issues, engagement
- Evaluation of hotline reporting trends
- Trends in anonymous vs. identified reporting, “hot spots”
Effective Auditing & Monitoring in Practice: 
Tools and techniques

Some common tools and techniques for ongoing monitoring are:

- Self-assessments, self-reporting
- Internal control (SOX) assessments, online self-reporting tools (Conflicts of Interest, Gifts & Entertainment)
- Trend analysis applied to accounts or transactions
- Budget to Actual reviews, G&A expense levels
- Review of identified risk indicators
- Red flags for potential corruption, Cash vs. Credit Card T&E reimbursement

Effective Auditing & Monitoring in Practice: 
Tools and techniques

Some common tools and techniques for ongoing monitoring are:

- Listening to communications
- Investor calls, town halls, sales meetings
- Benchmarking
- Program elements, hotline statistics, etc.
- Focus Groups
- High risks areas or identified “hot spots”
Effective Auditing & Monitoring in Practice: Tools and techniques

Some common tools and techniques for Auditing are:

- Onsite visits and interviews
- Internal control effectiveness testing
- Detailed transaction testing
- Forensic or fraud audit techniques (i.e. ACL)
- Verification of monitoring results
- Exception review and follow up

To monitor, to audit or to do both – which approach is best?

- Evaluate cost / benefit of each activity based on the relative risk of the particular compliance area under consideration
- Determine organizational capability
- Review past results and changes in the business
- Consider ability to work with Internal Audit or other strategic partner
Effective Auditing & Monitoring in Practice: A critical program component

Some challenges to effective Auditing & Monitoring are:

- Limited Ethics and Compliance team resources
- Complexity of business / risk environment
- Geographic footprint across multiple countries
- Disparate systems and processes across the organization
- Little to no automation
- Lack of management support

Can you think of any others?

Strategies for overcoming these challenges:

- Leverage other department resources
- Engage internal employee liaisons/groups to identify hot spots/needs
- Partner externally (e.g. consultants, professional organizations)
- Focus on your key risks, one at a time
- Start small
- Build management support over time

Can you think of any others?
Effective Auditing & Monitoring in Practice: Leveraging Partners

Internal Audit

- Contribute to Internal Audit risk assessment and annual planning process
- Receive audit reports with any compliance related findings
- Train auditors on top compliance risk areas and participate in the development of their audit programs, internal control questionnaires and interview process
- Work together on compliance audits and/or investigations

15 MINUTE BREAK
**Effective Auditing & Monitoring in Practice: Getting started**

**Step 1: Identify and prioritize key ethics and compliance risk areas**

- Obtain information from your formal risk assessment and the company’s ERM process if not linked
- Reassess your population of risks given regulatory or business changes
- Determine if adequate procedures are already in place to mitigate risk to an acceptable level

*Some areas commonly monitored:* Conflicts of Interest, Bribery & Corruption, Third Party Relationships, Accurate Books and Records, Data Privacy & Security, Gifts & Entertainment, Discrimination

**Step 2: Identify good candidate for auditing &/or monitoring**

- Review compliance areas of highest risk to your business from an impact and likelihood perspective
- Identify business processes related to the risk areas chosen
- Evaluate any existing monitoring tools, control assessments or audit activities in place for each risk area, identify gaps
- Evaluate feasibility of using automation (systems) for ongoing monitoring or exception reporting
Effective Auditing & Monitoring in Practice: Getting started

Step 1 & 2

<table>
<thead>
<tr>
<th>An Example</th>
<th>Risk Area Identified: Conflicts of Interest</th>
</tr>
</thead>
<tbody>
<tr>
<td>Related Business Processes: Procurement, Gifts &amp; Entertainment, Hiring</td>
<td></td>
</tr>
<tr>
<td>Controls in Place: Code of Conduct which requires self-disclosure of COI, Procurement policy</td>
<td></td>
</tr>
<tr>
<td>Are procedures adequate to mitigate risk to an acceptable level?</td>
<td>No, reliant on the honor system</td>
</tr>
<tr>
<td>Is it possible to use systems or automation to monitor compliance?</td>
<td>Yes, to some extent</td>
</tr>
</tbody>
</table>

Step 3: Scope your effort

- Identify appropriate auditing or monitoring techniques and who will perform them based on capability, availability or other criteria
- Determine whether the scope should be broad, i.e. across the entire organization or entire population of transactions, or will you select “hot spots” (high risk locations, transaction types or roles) for a more targeted approach
- Identify effectiveness metrics
- Determine the frequency of this effort considering both internal and external factors
**Effective Auditing & Monitoring in Practice: Getting started**

### An Example

<table>
<thead>
<tr>
<th>Scope:</th>
<th>Step 3</th>
</tr>
</thead>
<tbody>
<tr>
<td>Possible monitoring techniques:</td>
<td>Monitoring only, Audit upon identified exception if necessary (Cost/Benefit).</td>
</tr>
<tr>
<td></td>
<td>Targeted to higher risk roles: Directors, Officers, Sr. Management, Procurement</td>
</tr>
<tr>
<td>Frequency:</td>
<td>Survey &amp; Individual Questionnaires - Annual</td>
</tr>
<tr>
<td></td>
<td>Review G &amp; E Register &amp; Hotline trends quarterly</td>
</tr>
</tbody>
</table>

* Samples in appendix

### Possible monitoring techniques:

- Knowledge and Culture Survey* – Do people understand the rules and their responsibilities?
- Individual Conflict of Interest Questionnaires* prompting disclosure
- Gift & Entertainment Online Register*  
- Hotline trends

<table>
<thead>
<tr>
<th>Possible auditing techniques:</th>
<th>Testing of vendor database / significant contracts for related entities</th>
</tr>
</thead>
</table>
Effective Auditing & Monitoring in Practice:
Getting started

<table>
<thead>
<tr>
<th>An Example</th>
<th>Step 3</th>
</tr>
</thead>
<tbody>
<tr>
<td>Who will Monitor:</td>
<td>Ethics and Compliance Team</td>
</tr>
<tr>
<td>Effectiveness Metrics:</td>
<td>Increased COI inquiries and disclosure</td>
</tr>
<tr>
<td></td>
<td>Improved survey results</td>
</tr>
</tbody>
</table>

Effective Auditing & Monitoring in Practice:
Getting started

Step 4: Determine how results will be communicated and followed up upon

- Identify person responsible for the business process or risk area under review
- Establish process for legal oversight (protection of privilege if necessary)
- Determine how findings will be tracked for remediation and follow up
Effective Auditing & Monitoring in Practice:
Getting started

<table>
<thead>
<tr>
<th>An Example</th>
<th>Step 4</th>
</tr>
</thead>
<tbody>
<tr>
<td>Responsible Business Owner:</td>
<td>Functional V.P.’s Policy Owners</td>
</tr>
<tr>
<td>Legal Oversight:</td>
<td>Internal Counsel</td>
</tr>
<tr>
<td>Communication of Findings:</td>
<td>Exceptions to individual and direct management, H.R.</td>
</tr>
<tr>
<td>Tracking of Findings and Resolution:</td>
<td>Follow COI resolution process and maintain in case management system for ease of tracking and search capability</td>
</tr>
</tbody>
</table>

Effective Auditing & Monitoring in Practice:
Table Exercise

Case Study

Attendees will work on a case at their table and be asked to work through Steps 1-4 with information provided in their workbook handout. Representatives from each table report back to the group. Group commentary, Q&A.
Appendix: Sample Monitoring Tools

Sample Knowledge & Culture Survey Questions:

I understand that I should not be employed by or serve in any capacity with any company that competes with my organization or any of its subsidiaries.

True or false: It’s okay to take personal advantage of business opportunities that arise through company property, information or business.

Which of the following situations is not likely to create a potential conflict of interest?

When doing business or working with family members, which of the following situations could create a conflict of interest?
Appendix: Sample Monitoring Tools

Individual COI Questionnaires:

Directors and Officers Disclosure
- Questions driven by both regulatory and policy criteria
- Performed at screening and annually thereafter

Periodic Employee Questionnaires to prompt disclosure
- Questions driven by policy criteria

Stored and referenced if/when needed

Sample Questions:

Do I (or anyone I have a close personal relationship with) have an ownership interest in a competitor or company who does business with our company?

Do I (or anyone I have a close personal relationship with) hold an influential position at a competitor or company who does business with our company?

Do I hold a public office that may require me to handle issues of interest to our company?

Is there anything that may cause me to act other than in the best interests of our company when making a business decision?
Appendix: Sample Monitoring Tools

*Gift & Entertainment Register*

Primarily used to record gifts & entertainment transparently in compliance with G&E and Anti-corruption policies.

Also used to monitor potential conflicts of interest, i.e. supplier relationships.